

## Message Text

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ORIGIN EUR-25

INFO OCT-01 ADP-00 SS-15 PM-07 EB-11 TRSE-00 CIAE-00

DODE-00 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01

PRS-01 USIA-15 OMB-01 SAJ-01 MBFR-03 CIEP-02 /112 R

DRAFTED BY EUR/CE:LHEICHLER:DAM

08/24/73 EXT. 22155

APPROVED BY E - WJCASEY

EUR - MR. GSSPRINGSTEEN

EUR/CE - MR. SUTTERLIN

PM/ISP - NORMAN TERRELL (DRAFT)

EB/IFD/OMA - WBMILAM (DRAFT)

EUR/RPM - WROMINE (DRAFT)

TREASURY - MR. NENSEL (DRAFT)

DOD - BGH LOBDELL (DRAFT)

S/S - MR. GAMMON

----- 117649

R 312252Z AUG 73

FM SECSTATE WASHDC

TO AMEMBASSY BONN

INFO USMISSION NATO

C O N F I D E N T I A L STATE 174640

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: OFFSET NEGOTIATIONS

REF: STATE 158425

FOR AMBASSADOR

1. AS REPORTED REFTTEL, FINMIN SCHMIDT HAS TOLD TREASURY SECRETARY SHULTZ THAT GERMAN POSITION ON OFFSET WOULD HAVE TO BE CONSIDERED BY CABINET AT EARLY SEPTEMBER MEETING BEFORE GERMANS COULD BEGIN ACTUAL NEGOTIATIONS.

2. DEPARTMENT BELIEVES THAT WE SHOULD REAFFIRM OUR GENERAL OBJECTIVES TO FRG IN ADVANCE OF CABINET MEETING, SO  
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THAT CABINET WILL HAVE A CLEAR APPRECIATION OF WHAT WE

NEED AND THE FORM IN WHICH IT CAN BEST BE PROVIDED.  
HOPEFULLY THE CABINET WILL ON THIS BASIS APPROVE A BROAD  
FRG NEGOTIATING POSITION WHICH WILL PERMIT THE NEGOTIA-  
TORS TO REACH AGREEMENT FAIRLY QUICKLY, ONCE DETAILED  
DISCUSSIONS BEGIN.

3. DEPARTMENT WOULD APPRECIATE IT THEREFORE IF YOU WOULD  
REITERATE FOLLOWING POINTS AT HIGHEST LEVEL APPROPRIATE:

A) AS FRG AWARE, WE ARE INTERESTED IN WIDER ALLIANCE  
PARTICIPATION IN BURDEN-SHARING AND NEUTRALIZATION OF  
BALAN(E-OF-PAYMENTS COSTS ARISING FROM STATIONING OF OUR

FORCES IN EUROPE. NONETHELESS WE HAVE CONCLUDED  
AND FRG HAS AGREED THAT WE SHOULD MOVE AHEAD AND  
CONCLUDE BILATERAL OFFSET AGREEMENT BETWEEN FRG  
AND US, AS IN THE PAST. ALLIANCE HAS AGREED TO  
GIVE URGENT ATTENTION TO A BROADER AGREEMENT IN  
FUTURE, AND WE SHOULD AGAIN STRESS TO FRG THAT  
ANY COMMITMENTS UNDERTAKEN BY GERMANS UNDER NEW  
BILATERAL AGREEMENT WOULD EITHER BE TAKEN FULLY  
INTO ACCOUNT IN MULTILATERAL BURDEN-SHARING ARRANGEMENTS  
WE HOPE TO NEGOTIATE IN NATO OR BE ADJUSTED LATER  
IN THE LIGHT OF ANY MULTILATERAL AGREEMENT.

B) WE ANTICIPATE THAT US DEFENSE EXPENDITURES IN THE  
FRG FOR FY 74 AND 75 WILL BE IN EXCESS OF \$4 BILLION.  
(FYI: IN THE PREVIOUS OFFSET NEGOTIATIONS A CALCULA-  
TION OF 80 OF TOTAL US DEFENSE EXPENDITURES WAS CON-  
SIDERED TO REPRESENT A SATISFACTORY OFFSET. END FYI.)

C) OUR FIRST PRIORITY IS TO ACHIEVE AN AGREEMENT THAT  
WILL PROVIDE BOTH BUDGETARY AND POSITIVE EFFECT ON OUR  
B/P POSITION THROUGH HIGH-QUALITY OFFSET. WE WOULD  
THUS HOPE THAT AN AGREEMENT COULD BE REACHED WHICH  
WOULD NOT ONLY OFFSET A SIGNIFICANT PORTION OF OUR  
FOREIGN EXCHANGE COSTS BUT ALSO ABSORB THE ADDITIONAL  
BUDGETARY COSTS WHICH THE US EXPERIENCES AS A RESULT OF  
STATIONING US FORCES IN THE FRG AS OPPOSED TO CONTINENTAL  
US. WE WOULD NOT WISH TO DEFINE PRECISELY FOR GERMANS  
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WHAT ITEMS TO CONSIDER WHICH WOULD MEET THIS OBJECTIVE.  
HOWEVER, ILLUSTRATIVE EXAMPLES ARE LAND TAXES; UTILITIES;  
CERTAIN TRANSPORTATION COSTS; OPERATION OF US ARMY  
MAINTENANCE PLANTS AND SUPPLY DEPOTS. CAPITAL IMPROVE-  
MENTS WHICH RELIEVE THE US OF A CORRESPONDING EXPENDITURE  
WOULD ALSO BE ELIGIBLE FOR INCLUSION.

D) WHILE GERMAN MILITARY PROCUREMENT IN US DOES NOT PROVIDE BUDGETARY RELIEF, IT HAS A POSITIVE EFFECT ON OUR BALANCE OF PAYMENTS AND HELPS TO STRENGTHEN THE MILITARY CAPABILITY OF THE ALLIANCE. WE HOPE, THEREFORE, THAT GERMAN MILITARY PROCUREMENT WILL AGAIN BE A MAJOR FACTOR IN THE NEW OFFSET AGREEMENT, AND THAT GERMANS WILL SOON BE IN POSITION TO DISCUSS THEIR MILITARY PROCUREMENT NEEDS. WE ALSO AWAIT THEIR RESPONSE TO SUGGESTIONS WE HAVE MADE CONCERNING INCREMENTAL CIVILIAN PROCUREMENT AS WELL AS RESEARCH AND DEVELOPMENT PROJECTS.

4. OUR OBJECTIVE REMAINS MAXIMUM HARD, HIGH-QUALITY OFFSET PROVIDING DIRECT, POSITIVE B/P EFFECT AND, WHERE POSSIBLE, BUDGET RELIEF AS WELL. WE UNDERSTAND THAT GERMANS HAVE INDICATED DESIRE TO INCLUDE FINANCIAL TRANSACTIONS, BUT THE VALUE OF SUCH FINANCIAL TRANSACTIONS IN ESSENCE IS LIMITED TO THE DIFFERENCE BETWEEN PRESENT VALUE MARKET RATES AND CONCESSIONARY OR ZERO RATES OF INTEREST. THERE IS GREAT SKEPTICISM IN CONGRESS AS WELL AS THE ADMINISTRATION AS TO THE VALUE OF LOANS. IN ANY EVENT, PRINCIPAL AMOUNT OF ANY LOAN COULD LOGICALLY BE INCLUDED IN CALCULATION OF TOTAL BENEFITS ONLY IF REDEMPTIONS OF PAST LOANS ARE INCLUDED IN THE CALCULATION OF EXPENDITURES TO BE OFFSET. WE ARE ALSO ACUTELY AWARE THAT SOME PAST OFFSET LOANS DENOMINATED IN DM TURNED OUT TO BE SUBSTANTIALLY MORE COSTLY THAN IF THE NOTES WERE NOT INCLUDED.

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5. UNDER SECRETARY CASEY PLANS TO MAKE PARALLEL APPROACH TO FRG AMBASSADOR HERE. ROGERS

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